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OPPORTUNITIES FOR STATE ENERGY OFFICE AND HOUSING FINANCE AGENCY COLLABORATION

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Introduction

There is ample opportunity for State Energy Offices and Housing Finance Agencies to work together and achieve the shared goals of energy efficiency, energy cost reductions, occupant comfort, and beneficial electrification in affordable housing. Housing Finance Agencies (HFAs) help finance the purchase, development, and rehabilitation of affordable homes for low- and middle-income households. HFAs offer a breadth of financing tools that impact tens of thousands of buildings representing millions of housing units across the country. Many HFAs oversee the Low Income Housing Tax Credit (LIHTC) used to generate equity for affordable and mixed-income multifamily properties. They also distribute grants and subsidized loans that reduce the need for debt and make projects more affordable for building owners and renters. State Energy Offices and HFAs can achieve multiple goals by collaborating, including:

1. **Improving energy affordability.** Improving energy affordability and reducing energy burden are shared goals of HFAs and State Energy Offices. Partnership is an opportunity to share resources and ideas to maximize impact.
2. **Advancing equity.** HFAs regularly engage with moderate- and low-income renters that may lack resources, adequate credit scores or the decision-making authority to improve their homes. State Energy Offices may want to leverage these existing networks to reach these communities.
3. **Improving program capacity.** HFAs can provide feedback to State Energy Offices on program design to ensure that programs are compatible with affordable housing constraints.
4. **Increasing technical capacity.** State Energy Offices can provide energy technology and building science expertise during project design to support its adoption. Alternatively, HFA staff have experience screening, underwriting, awarding, and monitoring projects that could aid State Energy Offices during project financing.
5. **Engage and educate building owners.** State Energy Offices can partner with HFAs to engage and educate building owners on the benefits of high performing buildings and any assistance available to scope and fund projects.

Low Income Housing Tax Credit

The federal Low Income Housing Tax Credit (LIHTC) program is the largest source of financing for affordable housing. State or local HFAs, together with the U.S. Department of Treasury, administer the LIHTC program. The amount of tax credits a state can allocate each year is limited based on a per capita formula authorized by Congress. To allocate credits, HFAs use a competitive process open to new construction and existing building refinancing, with selection criteria outlined in the HFA's Qualified Allocation Plan (QAP) or similar document. Federal statute gives HFAs broad discretion in how to allocate the credits through the QAP. Developers seek to maximize their chances of securing funding by ensuring that the developments they pursue adhere closely to the priorities of the housing agency as laid out in the QAP.

Many HFAs have adopted requirements or incentives for a range of high performance and energy-efficiency priorities, including the ones listed below. State Energy Offices can work with HFAs to adapt these priorities to support state energy goals.

- Energy audits or modeling
- Third party building standards (e.g., ENERGY STAR)
- Water conservation requirements
- Renewable energy requirements
- Energy and water benchmarking requirements

Program Design: Case Study from New York

New York State Energy Research and Development Authority (NYSERDA) partnered with both the New York City Department of Housing Preservation and Development (HPD) and New York State Homes and Community Renewal (HCR) to accelerate the decarbonization of affordable housing. NYSERDA is addressing climate goals and HPD and HCR can create healthier homes and reduce utility bills for low-income renters. NYSERDA co-administers incentive programs with the housing agencies to award funding to developers during the development of the initial financial stack, making it easier for renovation and new construction projects to "pencil out" and ensuring that the incentives impact design decisions. The Retrofit Electrification Pilot from HPD and Clean Energy Initiative from HCR grew out of existing partnerships between the agencies and NYSERDA. The partnerships intensified after the passage of statewide climate legislation. The Climate Leadership and Community Protection Act, signed into law on July 18, 2019, requires New York to reduce economy-wide greenhouse gas emissions by 40 percent by 2030 and no less than 85 percent by 2050 from 1990 levels. The legislation created a Climate Action Council to oversee the plan needed to achieve the clean energy and climate goals. The Council provided a platform for leaders from NYSERDA and HCR to rethink their partnership and identify new decarbonization solutions and prioritized the electrification of affordable housing.

The HPD-NYSERDA Retrofit Electrification Pilot funds existing affordable housing properties to retrofit buildings with energy-efficient electrification upgrades. When eligible building owners seek financing for their existing affordable housing property through HPD, they can simultaneously access up to \$1 million to fund building decarbonization. Funds first became available in 2021. The HCR-NYSERDA Clean Energy Initiative supports highly efficient and all-electric projects by providing additional funds to affordable housing developers seeking financing through HCR's LIHTC programs. Projects can receive up to \$25,000/unit for partial or full electrification measures.

The following factors contributed to NYSERDA's success in collaborating with HPD and HCR.

1. **Co-administering the program.** NYSERDA is providing a reliable funding source to offset the need for the developer to raise additional capital upfront. In addition, committing funding upfront, including funding for soft costs such as consulting services to assist with project scoping, ensures that incentives impact building system design decisions.
2. **Providing technical assistance.** NYSERDA plays a key role in providing technical assistance to developers and housing agency staff. Developers need technical assistance early in the building design process to impact the scope of work. HCR and HPD do not have the resources to fund this type of technical assistance, so NYSERDA is funding consultants to work with program participants. NYSERDA also provides technical assistance to HCR and HPD to help staff evaluate applications and better understand technical issues. To further this effort, NYSERDA is assisting HCR in developing training plans to bolster internal staff capacity at the housing agencies. In addition to providing technical assistance for the electrification programs, NYSERDA has helped HCR to expand its sustainability design guidelines for LIHTC applicants.
3. **Looking to models in other states.** NYSERDA found it helpful to point to examples of how other housing finance agencies are directing developers to incorporate advanced building construction design. The Pennsylvania housing finance agency, for example, was the first housing finance agency in the country to incentivize Passive House standards. By 2020, 13 agencies incentivize Passive House.
4. **Demonstrating the success of early adopters.** NYSERDA staff recognized the importance of case studies of successful electrification projects for developers. The agency first worked with developers that they knew would be compelling content for case studies.

Stakeholder Engagement: Case Study from Colorado

To help meet Colorado's goals to cut statewide greenhouse gas emissions in half by 2030 and 90 percent by 2050, the Colorado Energy Office (CEO) partnered with the Colorado Housing and Finance Authority (CHFA) and the Colorado Department of Local Affairs (DOLA) to address the technical and financing gaps in achieving energy-efficient, all-electric affordable housing. CEO, CHFA, and DOLA met with housing developers to hear feedback about the benefits and challenges of developing high-performing buildings, had discussions on the potential cost impacts of electrification on housing providers and residents, and commissioned a report to understand what drives developer decisions and how those decisions impact operational and resident energy costs.

CHFA established a working group consisting of staff from the CEO and DOLA, several housing developers, and technical, engineering, and construction experts to understand the potential impacts of efficiency and electrification on affordable housing developers and residents. Developers shared cost and design impacts of electrification requirements on construction and operational costs. CHFA commissioned Group14, an engineering consulting firm with experience consulting on energy efficiency in affordable housing, to survey 13 all-electric and 11 mixed-fuel multifamily projects that were occupied, under construction, or in predevelopment across the state. It included both new

construction and retrofit projects. The Housing Tax Credit Building Electrification Report concluded that developers are challenged to adopt highly efficient construction practices, including installing heat pumps, because of the additional upfront construction cost. Fewer developers pursue high-performance design because of challenges securing technical expertise and experience. The report proposed the following solutions:

1. **Provide funding** tied to all-electric design and high-efficiency performance. The amount of funding should be sufficient to offset additional costs and be committed to the project early in the building design process to impact building design decisions.
2. **Provide developers technical assistance** through a Design Playbook and Electrification Resource Hub. The Playbook would identify best practices in building design. The Hub would serve as a one-stop shop for affordable housing developers to access technical experts.
3. **Continue to revise CHFA's QAP** to support all-electric construction in conjunction with statewide funding resources to offset the additional costs of high efficiency construction. Group14 recommends that CHFA consider high-performing, all-electric new construction projects by 2028.

Conclusion

State Energy Offices have expertise in energy and building science that can inform the technical specifications for a project while State Housing Finance Agencies have deep relationships with affordable housing developers and know the process required to update affordable buildings. State Energy Offices and State Housing Finance Agencies can leverage their unique expertise and collaborate to meet energy efficiency and beneficial electrification goals.